

October 19, 2018

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, Square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax : 514-864-6381
consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Dear Sir/Madam:

Re: CSA Notice and Request For Comment - Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* Reforms to Enhance the Client-Registrant Relationship (“Client Focused Reforms”)

Children’s Education Funds Inc. (CEFI) thanks the Canadian Securities Administrators for the opportunity to comment on the Client Focused Reforms. We recognize and understand the fundamental importance of a strong investor protection framework and we appreciate having a voice in this process. Through this letter, it is our goal to share our firm’s observations and opinions on the Client Focused Reforms tabled for comment.

General Comments

By way of general comment, we wish to emphasize that as a scholarship plan dealer, CEFI only offers RESP products. As such, when our firm works with families to invest with a view to saving for post-secondary education, we are focused on this isolated financial need and not the family’s whole financial plan, except in broad terms to understand our client. This single financial need orientation uniquely places CEFI, and presumably other scholarship plan dealers, in the

securities industry. It is from this specific vantage point that our comments are offered. In our view, some of the Client Focused Reforms, including aspects of the new referral arrangement rules and the proposed obligation to make detailed and specific inquiries

We ask that the CSA include specific rules and guidance for scholarship plan dealers. We wish to work with the CSA, in consultation with our industry, in order to achieve a set of fair rules applicable to scholarship plan dealers.

We also request that the CSA further refine the Client Focused Reforms by including succinct and practical guidance for registrants. Many of the Client Focused Reforms proposed set a new and higher standard but often in broad and ambiguous terms. We stress that these Client Focused Reforms will only be successful in their goals if they are well understood and implemented by registrants who can operate with clarity and precisely comprehend what these new regulatory standards entail on a practical level.

Know-Your-Client

CEFI generally supports the proposed Client Focused Reforms as they pertain to a deeper Know-Your-Client (KYC) discussion. A deep and meaningful understanding of KYC is the best method to ensure that a proposed investment is suitable and that it will serve the client well for the long term.

Broad Investment Objectives

We do, however, have concerns about an obligation to question and understand the client's broad financial goals outside of education funding. CEFI deals exclusively in RESPs and as such, we have concerns that clients may not be willing to divulge information about their finances, outside of planning for post-secondary education, with a scholarship plan dealing representative.

It is also not clear to CEFI how collecting this additional information about securities and investments held by other firms would be part of a scholarship plan KYC discussion except in the most general of terms. Unlike many other registrants, CEFI deals exclusively in Registered Education Savings Plans. As such, CEFI's focus is limited to education funding. While the collection of general information about the client's net worth, general investment holdings and experience are helpful in assessing the suitability of a proposed RESP investment, the degree of detail that the Reforms call for will not alter the suitability assessment in a meaningful way. We therefore perceive a need for the CSA to develop additional guidance for scholarship plans in this area.

Updates to KYC Information

At the outset, we are concerned that a general time-based requirement to update KYC information every 36 months would result in a low response rate from clients.

CEFI updates KYC information when certain documented events or changes trigger an update to KYC information. As such, we strongly recommend that firms with established and documented processes to KYC information in a manner, that is responsive to a client driven change or need, be permitted to continue this work without a mandated timeframe. It would seem that this approach, which is client focused rather than calendar deadline oriented, is more in keeping with the spirit of the Client Focused Reforms.

Know Your Product

We support the concept that firms must understand its own products. We do not, however, agree with the Client Focused Reforms insofar as they extend KYP requirements to i) understand how that security generally compares with similar securities available in the market, and ii) must take this into account when determining whether or not to approve the security to be made available to clients. We do not believe that this aspect of the Client Focused Reforms is attainable nor is it likely to achieve increased investor protection. It is our view that firms should be focused on the quality of the products that they offer. There is sufficient competition within the industry to ensure that registrants' products will continue to evolve and improve for the benefit of investors.

Suitability

CEFI generally supports the extension of the suitability obligation as it is set out in the Client Focused Reforms. We do feel, however, that the proposed guidance is non-specific and broadly worded. Questions therefore arise as to how firms are to evidence and effectively demonstrate that a particular action for a client was made in a way that put the client's interest first. Much ambiguity remains.

Regulatory guidance that offers specific examples of how putting a client's interests first can be evidenced and perhaps including fictional scenarios would be of significant practical benefit for registrants. We note that in order to meet these higher standards, registrants will re-visit, overhaul and sometimes even re-draft firm policies and procedures - yet there is not complete clarity in respect of what is being required. In our respectful view, if these new and increased standards are to be implemented, then the CSA needs to precisely and plainly give additional guidance to registrants on practical expectations in order to meet these high proposed standards.

Similarly, concrete expectations surrounding permissible solutions for registrants to undertake when the registrant becomes aware that a security or the account no longer meets the client's suitability criteria would be of value in developing policies and processes at the firm level.

Identifying and Managing Conflicts of Interest

CEFI generally supports the Reforms as they pertain to the identification and management of conflicts of interest.

Referral Arrangements

CEFI, like other scholarship plan dealers, purchases prospective customer lists from third parties in order to market and sell our products. We are very concerned by the impact of banning the practice of purchasing prospective customer lists from third party marketing providers who are not participants in the financial services industry.

In our experience, the names provided to CEFI pursuant to these purchases actively consent to obtaining additional information about products and services available to parents including RESPs. We do not agree that these prospective customer list purchases ought to be prohibited by the Reforms. Furthermore, we do not believe that increased investor protection would be

achieved by prohibiting the purchase of the names of prospective customers who have provided their consent to be contacted.

Holding Out Rules

CEFI supports the Reforms as they apply to title and holding out. We believe that the Reforms planned in this area will result in greater transparency.

Representative Training requirements

We support increased training obligations as proposed by the Client Focused Reforms. CEFI considers a strong training program to be an integral part in ensuring that dealing representatives meet their obligations especially in the areas of suitability and KYC.

We would like to see more concrete and specific guidance from the CSA on periodic testing expectations.

Conclusion

We appreciate the opportunity to comment on the Client Focused Reforms. Thank you for your consideration.

Yours very truly,

Children's Education Funds Inc.

"Allison Haid Caughey"

Allison Haid Caughey
Vice President, Corporate and Legal Affairs